



# CARES Act Expanded Q&A

April 8, 2020

The CARES Act was signed into law on March 27 and will provide potential relief for ministries and workers. As part of the Church Alliance, Concordia Plans worked with benefits administrators from nearly 40 other denominations and champions on Capitol Hill to ensure that Small Business Administration guidance on the CARES Act indicates ministries and church workers have the same options as small businesses and self-employed individuals under the legislation.

A fellow member organization of the Church Alliance created the following document with answers to frequently asked questions about the provisions of the CARES Act. The answers offered below are based on a reading of the statute. In many areas, additional guidance from the IRS or other administrative agencies may be issued that may cause these answers to change. Since every taxpayer's situation is unique, it is recommended that individuals consult with an accountant or attorney before taking action.

For more information about provisions of the CARES Act and links to additional resources, visit our website at [ConcordiaPlans.org](https://www.concordiaplans.org).

## Questions and Answers concerning the recovery rebate.

### **As a pastor or an employee of a ministry am I eligible for a recovery rebate?**

If you are a U.S. resident with adjusted gross income under \$75,000 (\$112,500 for head of household and \$150,000 married), are not the dependent of another taxpayer and have a work-eligible Social Security Number ("SSN"), you are eligible for the full \$1,200 (\$2,400 married) rebate. If you have children, you are also eligible for an additional \$500 per child.

### **What if I earned over \$75,000 (\$112,500 for head of household and \$150,000 married)? Am I eligible for any rebate?**

Yes, depending on how much you earned over these amounts. The rebate amount is reduced by \$5 for each \$100 your income exceeds the phase-out threshold. The amount is completely phased-out if your income exceeded \$99,000, \$146,500 for head of household filers with one child, and \$198,000 for married couples with no children. For a typical family of four, the amount is completely phased out for those with incomes exceeding \$218,000.

### **What if my income was above the threshold in 2019, but I've lost my job due to the coronavirus? Can I still get a rebate check?**

Yes, if your income in 2019 was in the phase-out range you would still receive a partial rebate based on your 2019 tax return. Since the rebate is an advance on a tax credit that you may claim on your 2020 tax return, any additional credit you are eligible for will be refunded or reduce your tax liability when you file your 2020 tax return next year, assuming your income is lower in 2020 than in 2019.

### **Is the rebate taxable or will I have to pay back any amount?**

No, the rebate is not considered income.

### **Who qualifies as a child for purposes of the rebate?**

Any child who is a qualifying child for the purposes of the Child Tax Credit is also a qualifying child for the purposes of the recovery rebate. In general, a child is any dependent of a taxpayer under the age of 17.

### **Do dependents, other than children under 17, qualify a taxpayer for an additional \$500 per dependent?**

No, the additional \$500 per child is limited to children under 17.

### **If I have little to no income or receive federal benefits, such as SSI, am I still eligible for a recovery rebate?**

Yes, there is no qualifying income requirement. Even individuals with \$0 of income are eligible for a rebate if they are not the dependent of another taxpayer and have a work-eligible SSN.

### **As a pastor I opted out of Social Security years ago. Am I eligible for a recovery rebate?**

Yes, as long as you are not the dependent of another taxpayer and have a work-eligible SSN.

### **I am retired and my only income is from Social Security, my Concordia Retirement Plan pension and my Concordia Retirement Savings Plan 403(b). Am I eligible for the recovery rebate?**

Yes, if you are not the dependent of another taxpayer. Seniors are still encouraged to file their 2019 tax return to ensure they receive their recovery rebate as quickly as possible.

### **Are my college aged children eligible for a recovery rebate?**

Only if they are not considered your dependent. Generally, a full-time college student under the age of 24 is considered a dependent if their parent(s) provide more than half of their support.

### **What do I have to do to receive the recovery rebate?**

For most people, nothing. The IRS will use your 2019 tax return, or your 2018 return if you haven't filed your 2019 return, to either deposit the money into an account you authorized to receive a refund or send you a check.

### **What should I do if I did not file a tax return for 2019 or 2018?**

The best way to ensure you receive a recovery rebate is to file a 2019 tax return if you have not already done so. This could be accomplished for free online from home using the [IRS Free file](#) program. The law also requires the IRS to publish an alert notifying all individuals of their eligibility for the rebate and how to receive it if they have not filed either a 2019 or 2018 tax return. Further information may be found [here](#).

### **If I have a past due debt to a federal or state agency, or owe back taxes, will my rebate be reduced?**

No, the law turns off nearly all administrative offsets that ordinarily may reduce tax refunds for individuals who have past tax debts, or who are behind on other payments to federal or state governments, including student loan payments. The only administrative offset that will be enforced applies to those who have past due child support payments that the states have reported to the Treasury Department.

## **Questions and Answers concerning federal assistance available to pastors or ministry staff that have lost their jobs.**

### **I have heard that unemployment insurance may be available to pastors or ministry staff that lost their jobs due to the coronavirus pandemic. Is this true?**

Yes, the CARES Act provides specific provisions that will allow pastors or ministry staff who have lost their jobs to apply for unemployment benefits. The law creates a temporary program through December 31, 2020, to provide payment to those not traditionally eligible for unemployment benefits (self-employed, independent contractors, those with limited work history and others) who are unable to work as a direct result of the coronavirus public health emergency.

### **How much is this benefit?**

The amount of the benefit is established by the unemployment insurance program in the state in which you live. The Stimulus, however, provides an additional \$600 per week payment to each recipient of unemployment insurance as Pandemic Unemployment Assistance for up to four months and eliminates the requirement that unemployed individuals incur one week of unemployment before becoming eligible for benefits. In addition, the law provides an additional 13 weeks of unemployment benefits through December 31, 2020, to help those who remain unemployed after state unemployment benefits are no longer available.

### **My employer reduced my work schedule instead of laying off employees. Am I eligible for a partial benefit?**

Yes, the law allows employees whose hours were reduced by employers to avoid layoffs to receive a pro-rated unemployment benefit.

### **How do I apply for these benefits?**

The state in which you live administers the unemployment insurance program that provides these benefits. If you choose to apply for this benefit you will need to contact the appropriate state agency where you live. Here is a [website](#) that will allow you to navigate to the agency responsible for unemployment benefits in your state.

## **Questions and Answers concerning accessing retirement plan accumulations by pastors or ministry staff affected by the COVID Pandemic.**

### **Does the Stimulus package allow me to take money out of my retirement account to pay for expenses incurred during the COVID Pandemic?**

Yes, if you have money available for distribution the law waives the 10% early withdrawal penalty for distributions up to \$100,000 from qualified retirement accounts for coronavirus-related purposes made on or after January 1, 2020. In addition, income attributable to such distributions would be subject to tax over three years. If you take a distribution, the law also allows you to recontribute the funds to an eligible retirement plan within three years without regard to that year's cap on contributions.

### **What is a coronavirus-related purpose?**

A coronavirus-related distribution is one made to an individual: 1) who is diagnosed with COVID-19; 2) whose spouse or dependent is diagnosed with COVID-19; or 3) who experiences adverse financial consequences as a result of being quarantined, furloughed, laid off, having work hours reduced, being unable to work due to lack of child care due to COVID-19, closing or reducing hours of a business owned or operated by the individual due to COVID-19, or other factors that may be established by the government in the future.

### **Does the Stimulus package affect loans from my retirement plan?**

Yes, the law provides flexibility for loans from certain retirement plans for coronavirus-related relief.

### **Does the Stimulus package affect Required Minimum Distributions (RMD) out of my retirement plan or IRA?**

Yes. Defined contribution plans (401(k)s, 403(b)s, 457(b) plans) and IRAs may suspend RMDs in 2020. Further guidance from the IRS is expected on this topic.

## **Questions and Answers concerning federal assistance available to churches and ministries.**

### **I have heard there may be federal financial assistance available to churches and ministries. Is this true?**

Yes, you may consider several options made available to your church or ministry by the COVID Phase III Stimulus Package to help your church or ministry through this difficult time.

### **What options are available?**

The Stimulus package makes available several forms of relief potentially benefitting churches and ministries. These include (1) payroll tax credits, (2) tax deferrals, (3) encouraging charitable contributions, (4) paycheck protection small business loans, and (5) economic injury disaster small business loans.

## **Payroll Tax Credit**

### **What is the payroll tax credit?**

The Stimulus provides a refundable payroll tax credit for 50% of wages paid by employers to employees during the COVID-19 crisis. The credit is available to employers whose 1) operations were fully or partially suspended due to a COVID-19-related shutdown order, or 2) gross receipts declined by more than 50% when compared to the same quarter in the prior year.

### **How is the credit calculated?**

For eligible employers with 100 or fewer full-time employees, all employee wages qualify for the credit, whether the employer is open for business or subject to a shut-down order. The credit is based on qualified wages paid to the employee. For employers with greater than 100 full-time employees, qualified wages are wages paid to employees when they are not providing services due to the COVID-19-related circumstances described above. The credit is provided for the first \$10,000 of compensation, including health benefits, paid to an eligible employee. The credit is provided for wages paid or incurred from March 13, 2020, through December 31, 2020.

### **Does securing a Paycheck Protection Loan impact this payroll tax credit?**

Yes. An employer who obtains a Paycheck Protection Loan is not eligible for this payroll tax credit.

### **Does claiming the credit prevent the deferral of additional payroll taxes that will become due through the remainder of 2020?**

The CARES Act does not expressly prevent an employer from claiming the Employee Retention Credit and seeking to defer additional payroll taxes that may become due in 2020.

### **Are ministers' wages included for purposes of the payroll tax credit?**

No. Wages for services performed by ministers in the exercise of their ministry are excluded from the definition of qualified wages for purposes of the payroll tax credit. See [IRS News Release 2020-62](#) for additional information on the payroll tax credit.

## **Tax Deferrals**

### **What tax deferrals are available?**

The Stimulus package allows employers and self-employed individuals (which should include pastors for this purpose) to defer payment of the employer share of the Social Security tax they otherwise are responsible for paying to the federal government with respect to their employees or the self-employed person (pastors are treated as self-employed and pay SECA (Self Employed Contributions Act) taxes). Employers generally are responsible for paying a 6.2% Social Security tax on employee wages. The provision requires that the deferred employment tax be paid over the following two years, with half of the amount required to be paid by December 31, 2021 and the other half by December 31, 2022. Further guidance will be needed to determine how tax deferrals may impact pastors paying SECA taxes. This provision is not available to an employer who has had its debt forgiven in connection with a Paycheck Protection Loan.

## Charitable Contributions

### How does the law encourage charitable contributions?

The Stimulus package allows charitable deductions of up to \$300 to churches and charitable organizations in 2020 regardless of whether donors itemize their deductions or not. The law also increases the amount of deductions for charitable contributions by individuals who itemize as well as corporations. For individuals, the 50% of adjusted gross income ceiling is suspended for 2020. For corporations, the 10% ceiling is raised to 25% of taxable income. This provision also raises the ceiling on deductions for contributions of food inventory from 15% to 25%.

## Paycheck Protection Program Small Business Loans

### Why are small business loans being made available in the Stimulus package?

The purpose of these loans is to assist small businesses in keeping workers paid and employed during the pandemic. These loans are designed to give employers an incentive and provide the ability to keep their employees instead of laying them off and shutting down their businesses. Tax-exempt entities are specifically recognized as eligible to apply for these loans that are guaranteed by the federal government.

### Are churches and ministries eligible to apply for loans through the Paycheck Protection Program?

Yes. The Treasury Department issued an [Interim Final Rule](#) on April 2, 2020, that recognizes their eligibility.

### Does applying for a Paycheck Protection Loan subject my ministry to federal rules or regulations that could violate my religious convictions?

No. The Interim Final Rule contains express protection for religious freedom. The Interim Final Rule states “All loans guaranteed by the SBA pursuant to the CARES Act will be made consistent with constitutional, statutory, and regulatory protections for religious liberty, including the First Amendment to the Constitution, the Religious Freedom Restoration Act, 42 U.S.C. 2000bb-1 and bb-3, and SBA regulation at 13 C.F.R. 113.3-1h, which provides: “Nothing in [SBA nondiscrimination regulations] shall apply to a religious corporation, association, educational institution or society with respect to the membership or the employment of individuals of a particular religion to perform work connected with the carrying on by such corporation, association, educational institution or society of its religious activities.” SBA intends to promptly issue additional guidance with regard to religious liberty protections under this program.”

### How do the small business loans work for churches and ministries?

Churches and ministry organizations that are exempt from tax under Section 501(c)(3) of the Tax Code and that have fewer than 500 employees at one location and self-employed individuals, individuals operating as a sole proprietorship or individuals operating as an independent contractor, may apply for a Paycheck Protection Loan to cover payroll and related employee expenses for the period February 15 through June 30, 2020, to help them sustain their ministries.

### How can the loan proceeds be used?

The loan proceeds may be used to pay payroll costs, group health insurance benefits, paid sick leave, medical and insurance premiums, mortgage interest payments, rent payments, utilities or interest on other loans outstanding at the time of the pandemic.

### What costs are considered payroll costs?

Salary or wages, payments of a cash tip, vacation, parental, family, medical, or sick leave, health benefits, retirement benefits, state and local taxes. Note, however, that salary expenses above \$100,000 per employee are not eligible for consideration as payroll costs and loan proceeds may not be used to pay salaries above \$100,000 per employee.

### **Are housing allowance amounts includable in payroll costs?**

The Stimulus does not specifically list housing allowance as an element of payroll costs. Although housing allowance is exempt from federal income taxation, it is included as income for purposes of SECA and may be counted as compensation for retirement plan contribution purposes. Amounts received in excess of the allowance permitted under Section 107 of the Tax Code must be recognized as ordinary income for federal income tax purposes. The SBA has not issued guidance on this question and in the absence of such guidance SBA lenders may be reluctant to consider housing allowance in calculating payroll costs.

### **How much can a church or ministry borrow?**

The amount that may be borrowed is the total average monthly payroll costs for the preceding twelve (12) months (March 2019 through February 2020) multiplied by a factor of 2.5. For example, if the average payroll costs for the preceding twelve months were \$20,000, the maximum amount of the loan would be \$20,000 times 2.5 for a total of \$50,000. The maximum amount available for a payroll Protection Loan is \$10,000,000.

### **Can a self-employed pastor apply for a Payroll Protection Loan?**

The Stimulus package allows self-employed individuals to apply for these loans. Under certain circumstances, pastors are considered self-employed and should be eligible to apply for a payroll protection loan under the same terms and conditions as other loan applicants. For example, if a pastor's average monthly salary for the preceding twelve months was \$5,000 then the pastor should be able to apply for a loan in the amount of \$12,500.

### **How soon must the church, ministry or pastor repay the loan?**

Even though the CARES Act allowed up to ten (10) years to repay these loans, newly issued guidance by the Department of Treasury requires these loans to be repaid with two (2) years.

### **What interest rate will these Payroll Protection Loans bear?**

While the maximum interest rate for these loans under the Stimulus Program is 4% per year, the Interim Final Rule issued April 2, 2020, established that the interest rate will be 1%.

### **Is the church, ministry or pastor required to pledge collateral for the loan, or will another party have to guarantee repayment?**

No. Further, the loans are non-recourse to the borrower with the exception that if loan proceeds are used for an unauthorized purpose, the then loan may be collected from the borrower.

### **May payments under the loan be deferred?**

Yes, for a period not less than six months but not to exceed more than one year from the date of the loan.

### **May all or part of the Payroll Protection Loan be forgiven?**

Yes, the program is designed to encourage employers to retain employees and loan forgiveness is a key feature of these loans. A ministry under a covered loan can have all or a portion of the principal of the loan forgiven in an amount equal to payroll costs, mortgage interest, rent, or utility costs during the eight-week period following the origination of the loan. The forgiven amount, however, may be reduced based on a formula that compares the ministry's employment in prior pre-COVID periods with the number of employees and each employee's wage or salary in the eight-week period following the origination of the loan. If employee wages are reduced by more than 25% during the period from February 15, 2020, through June 30, 2020, loan forgiveness is reduced by the amount of the wage reduction in excess of 25%.

### **Who is responsible for administering this program?**

The loan program will be administered by the Small Business Administration under its existing Section 7(a) business loan program. Certain requirements associated with typical SBA loans, such as guarantees, collateral, and "credit available elsewhere" underwriting, have been relaxed or eliminated.

### **How can a church, ministry or pastor apply for a Payroll Protection Loan?**

If you choose to pursue a Payroll Protection Loan, you will need to apply through an approved SBA lender, which includes most local banks. The approved SBA lender will assist you in completing the application and providing the required documentation for the loan. The loan documentation requirements and other traditional requirements to obtain a small business loan are substantially relaxed under this loan program. Access the current version of the loan application [here](#).

### **Where may I find additional information on the Paycheck Protection Loan Program?**

Informational documents and the application form can be found on the U.S. Department of the Treasury's website:

- [Top line overview of the program](#)
- [Information for borrowers](#)
- Paycheck Protection Program Loan [application form](#)

## **Economic Injury Disaster Small Business Loans**

### **What are Economic Injury Disaster Loans (EIDLs)?**

The Economic Injury Disaster Loan Program can provide up to \$2 million of financial assistance from the Small Business Administration to small businesses or private, non-profit organizations that suffer substantial economic injury as a result of the declared disaster, regardless of whether the applicant sustained physical damage.

### **How do EIDLs work for churches and ministries?**

Section 7(b)(2) of the Small Business Act makes loans available for economic injury (inability to meet financial obligations) attributable to COVID-19. Private nonprofits, including church and ministries, are eligible for EIDLs from January 31, 2020 - December 31, 2020 to help them sustain their operations by paying payroll and related expenses.

### **How can the loan proceeds be used?**

Loan proceeds can be used to provide paid sick leave due to COVID-19, maintaining payroll to retain employees during business disruption, rent, mortgage payments and other limited obligations.

### **How much can a church or ministry borrow?**

Private nonprofit employers are eligible to apply for an EIDL advance of up to \$10,000 (distributed within three days of application), and a loan of up to \$2 million, based on the amount of economic injury. Currently the SBA is informally advising that the loan amount should be limited to six (6) months of operating expenses.

### **How soon must the church or ministry repay the loan?**

Loan repayment terms are determined based on the organization's ability to repay the loan.

### **What interest rate will these EIDLs bear?**

The interest rate for loans to nonprofits is 2.75 percent

### **Is the church or ministry required to pledge collateral for the loan, or will another party have to guarantee repayment?**

Certain requirements associated with typical Small Business Administration loans, such as guarantees, collateral, and "credit available elsewhere" underwriting, have been relaxed or eliminated.

### **May payments under the loan be deferred?**

Principal and interest deferment are at the administrator's discretion.

**May all or part of the EIDL be forgiven?**

The advance of up to \$10,000 does not need to be repaid, even if the loan requested is denied. The CARES Act does not provide any additional forgiveness for an EIDL.

**Who is responsible for administering this program?**

The loan program will be administered by the Small Business Administration under its existing Section 7(b)(2) emergency loan program.

**How can a church or ministry apply for an EIDL?**

Applications are being accepted immediately. The application form can be found [here](#).

**Does securing an EIDL impact benefits the church or ministry receives under the Paycheck Protection Program?**

Yes. If the same applicant obtains a Paycheck Protection Loan under section 7(a) of the Small Business Act, the \$10,000 forgiven under this EIDL reduces what can be forgiven under the Paycheck Protection loan.

**Can the EIDL be used for ministry, or must it be used for secular purposes?**

The SBA has clarified that EIDL loan proceeds may be used for any legitimate operational purpose and are not limited to secular uses benefitting the general public.